

WESTERN DEPARTMENT STORES

REPORT to STOCKHOLDERS

January 31, 1954

Stores operated:

OLDS & KING

Portland
Est. 1851

KAHN'S

Oakland
Est. 1879

RHODES

Tacoma
Est. 1892

WESTERN DEPARTMENT STORES

A California Corporation

Incorporated in 1937

BOARD OF DIRECTORS

HAROLD V. BOGGS

JOHN J. GOLDBERG

R. L. CHILDS

ELLIOTT McALLISTER

HERBERT E. CLAYBURGH

JOHN J. REILLY

HERBERT I. DUNN

JOHN J. REILLY, JR.

F. A. WICKETT

OFFICERS

JOHN J. REILLY	<i>President</i>
JOHN J. REILLY, JR.	<i>Executive Vice-President</i>
HERBERT E. CLAYBURGH	<i>Vice-President</i>
HAROLD V. BOGGS	<i>Vice-President and Manager of Kahn's</i>
A. K. HUMBLE	<i>Vice-President and Manager of Rhodes</i>
R. L. CHILDS	<i>Secretary and Treasurer</i>
JOHN J. GOLDBERG	<i>Assistant Secretary</i>
L. L. RUSCH	<i>Assistant Secretary</i>
C. A. JOHNSTON	<i>Assistant Secretary</i>
H. W. RHEUBOTTOM	<i>Assistant Treasurer</i>

LEGAL COUNSEL

JESSE H. STEINHART

PUBLIC ACCOUNTANTS

PRICE WATERHOUSE & Co.

TRANSFER AGENT

THE ANGLO CALIFORNIA NATIONAL BANK
OF SAN FRANCISCO
No. 1 Sansome Street
San Francisco 20, California

REGISTRAR

WELLS FARGO BANK & UNION
TRUST Co.
Montgomery and Market Streets
San Francisco 4, California

Annual Stockholders' Meeting . . . Oakland, California, Tuesday, April 27, 1954, 11:00 o'clock A.M.
Executive Offices 1501 Broadway, Oakland, California (Kahn's)

OAKLAND 12, CALIFORNIA,
APRIL 2, 1954

To the Stockholders of
WESTERN DEPARTMENT STORES:

Submitted herewith are financial statements of your corporation for the fiscal year ending January 31, 1954, examined and reported upon by our independent auditors, Price Waterhouse & Co. These statements reflect the operation by the Corporation of its three department stores: Kahn's, Oakland, California; Olds & King, Portland, Oregon; and Rhodes, Tacoma, Washington.

Sales for the year were \$31,235,002 compared with \$31,929,738 in the previous year, a decrease of 2.2%.

Net income was \$1,099,308, equal to \$1.60 per share, compared with net income of \$1,065,249, equal to \$1.55 per share in the previous year.

Merchandise inventories on January 31, 1954, including goods in transit, were \$4,007,653, compared with \$3,992,295 on January 31, 1953.

Working capital of the Corporation at the end of the year was \$7,934,742, compared with \$7,583,698 at the end of the previous year. The ratio of current assets to current liabilities was 3.23 to 1, compared with 3.38 to 1 the previous year.

Customers Accounts Receivable at the end of the year were \$5,211,264, compared with \$4,873,638 at the end of the previous year.

The Corporation continued quarterly dividends at the rate of 20¢ per share and a dividend of 20¢ was paid April 1, 1954.

The Corporation's contributions for the past fiscal year to the Profit Sharing Retirement Plan and to health and welfare plans totaled \$131,940, compared with \$126,117 for the previous year. At January 31, 1954 there were 966 employees participating in the Retirement Plan, which is over 96% of the total number of employees eligible to participate.

In November 1953 an agreement was made with Country Club Realty, Inc. for a long-term lease providing for the construction of a department store in an established shopping center in the suburban area near Sacramento, California. There is a sketch and information concerning the store on the last page of this report. It is expected that the new store will be ready for business in approximately one year.

Arrangements have been made with a bank, for the purpose of financing the improvements, furniture and fixtures, merchandise investment and additional working capital for the new store. Under these arrangements, a maximum amount of \$2,000,000 (including present term loan of \$800,000) will be borrowed by January 31, 1955 and is to be repaid over a period of 7 years.

Your management expresses its sincere thanks to all of the employees of your corporation for their cooperation and assistance during the past year.

Notice of Annual Meeting of Stockholders and form of Proxy are enclosed. We hope you will attend; however, if you cannot be present, we will appreciate your completing and forwarding your proxy.

For the Board of Directors

JOHN J. REILLY, *President.*

WESTERN DEPAR

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BALANCE

(See accompanying notes

ASSETS

January 31

	1954	1953
Current Assets:		
Cash in banks and on hand.....	\$ 2,089,608	\$ 2,008,057
United States Treasury Certificates of Indebtedness (at cost, which is approximate market)	\$ 268,000	
Accounts receivable:		
Customers, less provision for doubtful accounts—1954, \$219,213; 1953, \$193,180	\$ 4,992,051	\$ 4,680,458
Sundry	128,114	87,191
	<u>\$ 5,120,165</u>	<u>\$ 4,767,649</u>
Inventories of merchandise:		
On hand, at or below cost, as determined by the retail inventory method	\$ 3,685,368	\$ 3,594,215
In transit, at cost.....	322,285	398,080
	<u>\$ 4,007,653</u>	<u>\$ 3,992,295</u>
Total current assets.....	<u>\$11,485,426</u>	<u>\$10,768,001</u>
Miscellaneous Investments, Deposits and Advances:		
Store repairs and improvements, recoverable from lessor.....	\$ 128,837	\$ 104,894
Investments (at cost) and insurance and other deposits.....	89,270	79,270
	<u>\$ 218,107</u>	<u>\$ 184,164</u>
Properties, at cost:		
Buildings, furniture and fixtures, etc.....	\$ 2,110,496	\$ 1,880,284
Leasehold and improvements to leased buildings.....	3,562,733	3,562,733
	<u>\$ 5,673,229</u>	<u>\$ 5,443,017</u>
Less—Accumulated depreciation and amortization.....	2,518,291	2,304,293
	<u>\$ 3,154,938</u>	<u>\$ 3,138,724</u>
Land	51,500	51,500
	<u>\$ 3,206,438</u>	<u>\$ 3,190,224</u>
Unexpired Insurance, Prepaid Taxes and Other Deferred Expenses.....	<u>\$ 205,054</u>	<u>\$ 241,038</u>
	<u><u>\$15,115,025</u></u>	<u><u>\$14,383,427</u></u>

PARTMENT STORES

(Corporation)

Balance Sheet

(as of financial statements)

LIABILITIES

January 31

1954

1953

Current Liabilities:

Accounts payable	\$ 1,434,643	\$ 1,621,728
Payrolls, taxes and other accrued liabilities.....	739,433	767,295
Federal taxes on income, estimated.....	1,176,608	1,195,280
Less—United States Treasury Savings Notes—Tax Series D.....		(600,000)
Note payable to bank—instalment due within one year (Note 1)...	200,000	200,000
Total current liabilities.....	\$ 3,550,684	\$ 3,184,303

Note Payable to Bank (Instalments due after one year) (Note 1)	\$ 600,000	\$ 800,000
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Employees' Subscriptions to Five Year Convertible Notes (Note 2)	\$ 29,026	\$ 14,334
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Capital and Surplus:

Common stock, par value \$0.25 per share:

Shares authorized 1,200,000

Shares issued 702,728

Less—In treasury 16,600

Outstanding 686,128

Other capital (Note 3).....	1,850,390	1,850,390
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Earned surplus, per accompanying statement (Note 1).....	8,909,243	8,358,718
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	\$10,935,315	\$10,384,790
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\$15,115,025

\$14,383,427

WESTERN DEPARTMENT STORES

STATEMENT OF INCOME AND EARNED SURPLUS

	Year ended January 31	
	1954	1953
Net sales, including leased departments.....	\$31,235,002	\$31,929,738
Less—Sales of leased departments.....	5,524,963	5,692,970
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Cost of merchandise sold.....	\$25,710,039	\$26,236,768
	16,548,094	17,188,546
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Gross profit—owned departments.....	\$ 9,161,945	\$ 9,048,222
Gross income from leased departments.....	738,547	752,432
Other income and credits.....	254,477	239,908
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	\$10,154,969	\$10,040,562
	<hr/>	<hr/>
Selling, general and administrative expenses.....	\$ 7,544,212	\$ 7,452,237
Contributions under profit-sharing retirement and health and welfare plans	131,940	126,117
Provision for depreciation and amortization.....	209,411	208,776
Interest expense	31,398	33,183
	<hr/>	<hr/>
	\$ 7,916,961	\$ 7,820,313
	<hr/>	<hr/>
	\$ 2,238,008	\$ 2,220,249
Provision for estimated federal taxes on income.....	1,138,700	1,155,000
	<hr/>	<hr/>
Net income for year.....	\$ 1,099,308	\$ 1,065,249
Earned surplus at beginning of year.....	8,358,718	7,911,501
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	\$ 9,458,026	\$ 8,976,750
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Dividends paid in cash, \$0.80 per share each year.....	\$ 548,783	\$ 552,741
Cost of 6,600 shares of the Company's capital stock purchased for treasury		65,291
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	\$ 548,783	\$ 618,032
	<hr/>	<hr/>
Earned surplus at end of year (Note 1).....	\$ 8,909,243	\$ 8,358,718
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WESTERN DEPARTMENT STORES

NOTES TO FINANCIAL STATEMENTS

January 31 1954

NOTE 1:

The balance of the note is payable in annual instalments of \$200,000. The loan agreement with the bank provides that, without the prior written consent of the bank, the Company will not declare or pay any dividends except from earnings subsequent to January 31 1947. The undistributed earned surplus since that date amounted to \$4,978,768. The Company has also agreed that during the term of the loan it will not permit its net current assets to decline below \$3,000,000 or its ratio of current assets to current liabilities to be less than two to one.

As of March 10 1954 the Company entered into a new loan agreement with the bank providing for additional borrowings prior to January 31 1955 of an aggregate amount which, when added to the outstanding balance of the present loan, will not exceed \$2,000,000. The funds borrowed under the new agreement are to be used to pay for leasehold improvements and equipment and to provide additional working capital in connection with a store to be opened at Sacramento. The amount owing at January 31 1955 will be converted into a note payable in annual instalments of \$200,000, commencing April 1 1956, with the balance payable on April 1 1962. The loan agreement provides that, without the prior written consent of the bank, the Company will not declare or pay any dividends except from earnings subsequent to January 31 1953. The undistributed earned surplus since that date amounted to \$550,525. The Company has also agreed that during the term of the loan it will not permit its net current assets to decline below \$6,000,000 or its ratio of current assets to current liabilities to be less than two to one.

NOTE 2:

Employee subscriptions to Five Year Convertible Notes as at January 31 1954 were as follows:

Collections under 1951 subscription agreements to Five Year Convertible Notes of a face value of \$46,200, maturing May 1 1956.....	\$20,554
Collections under 1952 subscription agreements to Five Year Convertible Notes of a face value of \$51,000, maturing December 1 1957	8,472
	<u>\$29,026</u>

The subscription agreements provide that at least 1/60th of the purchase price shall be paid on execution of the agreement and at least 1/5th of the balance shall be paid annually thereafter; the agreements are not transferable. On termination of employment or at the election of employees, amounts paid in on subscriptions are refundable and all rights under the agreements cease. The Five Year Convertible Notes are to be issued when the full subscription price has been received and will bear interest at 3% per annum from date of issuance; the notes are convertible at any time on or before maturity, at the option of the holder during the continuance of his employment, into common stock in the ratio of 10 shares of stock for each \$110 of face value as to 1951 subscriptions, and in the ratio of 10 shares of stock for each \$100 of face value as to 1952 subscriptions.

NOTE 3:

Other capital consisted of:

Excess of par value of 6% cumulative convertible preferred stock over par value of common stock issued upon conversion.....	\$1,610,040
Excess of proceeds from sale of convertible notes over par value of common stock issued upon conversion	240,350
	<u>\$1,850,390</u>

NOTE 4:

Leases for two of the stores expire in 1975; they provide for rentals computed as a percentage of sales, subject to a minimum annual rent. The lease for the third store, expiring in 1972, provides for a flat monthly rental plus real estate taxes in excess of a specified amount until 1957 and thereafter percentage rentals, subject to a minimum annual amount. In addition, the Company has entered into a lease agreement for a store under construction in Sacramento providing for a percentage rental, subject to a minimum annual amount. The period of this lease is thirty years from January 31 following completion of construction. The minimum annual rental obligation under these leases (estimated as to the Sacramento store) and the total amount of rent and other charges paid thereunder for the year ending January 31 1954 were \$584,500 and \$813,176, respectively.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of

WESTERN DEPARTMENT STORES:

In our opinion, the accompanying financial statements, together with the notes thereto, present fairly the position of Western Department Stores at January 31 1954 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

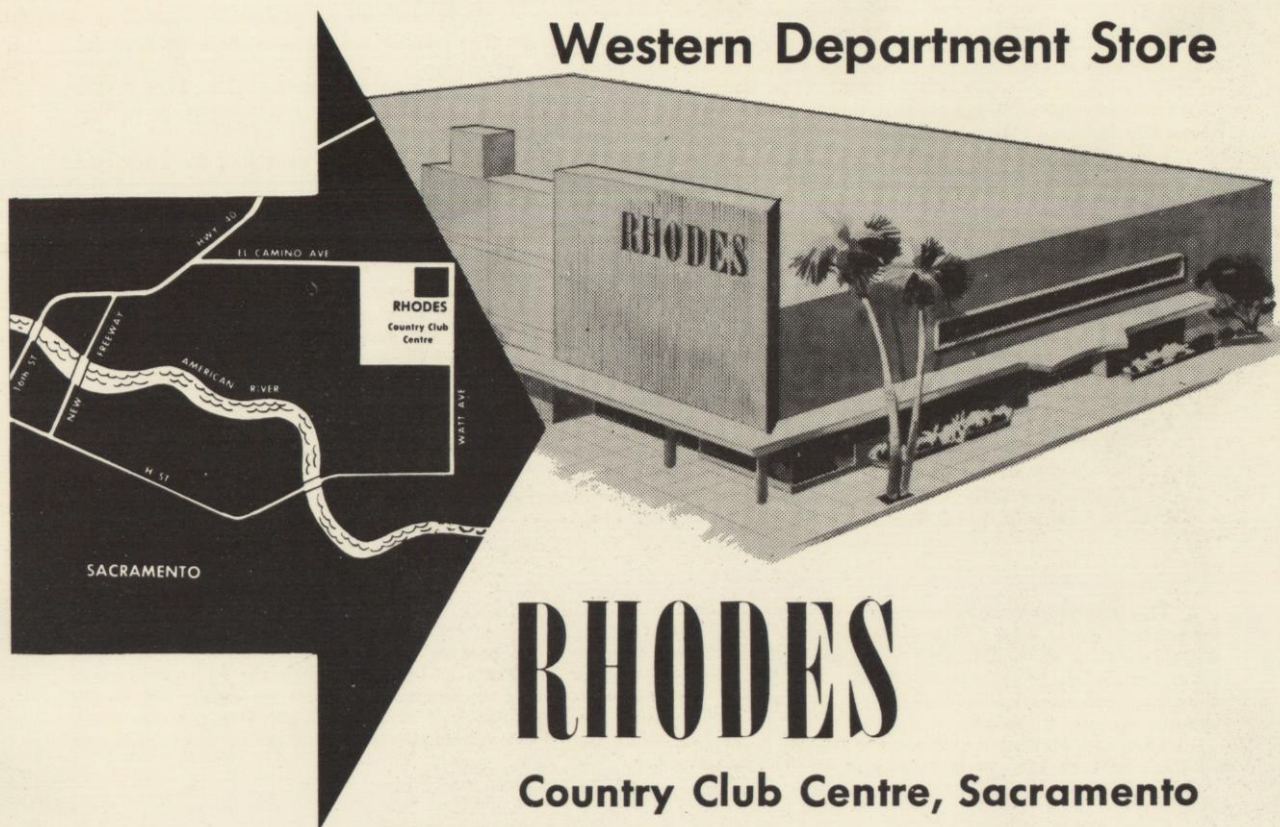
PRICE WATERHOUSE & Co.

San Francisco
March 23 1954

Now building . . .

your newest

Western Department Store



Rhodes, your newest Western Department Store, is now under construction in one of California's fastest growing cities. Sacramento's greatest growth has been north and east of the city, and it is in the heart of this bustling new suburban area, Country Club Centre, that Rhodes is located.

As Sacramento's first complete suburban department store, Rhodes fills an urgent need in the community. It has been planned with vision and forethought for future expansion. Parking facilities will accommodate 3,000 cars. Three shopping levels, comprising 110,000 square feet of floor space, will provide escalators, elevators, air conditioning, beauty salon and other customer services that will afford all the advantages of downtown shopping.

Like your other stores, Rhodes, Sacramento, will operate as an independent unit of Western Department Stores, not as a branch.

WESTERN DEPARTMENT STORES